

NEWELL SCHOOL DISTRICT NO. 9-2
NEWELL, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2010

NEWELL SCHOOL DISTRICT NO. 9-2

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Ketel Thörstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

School Board
Newell School District No. 9-2
Butte County, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District), Butte County, South Dakota, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1e to the financial statements, management has not recorded certain capital assets in the governmental activities and has not recorded depreciation expense on any capital assets of the governmental activities. Accounting principles generally accepted in the United States of America require that those capital assets be recorded as assets and depreciated, which would increase assets, net assets, and expenses in the governmental activities. Based on management estimates, this departure would materially affect the governmental activities portion of the financial statements. However, actual amounts have not been determined.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements for the governmental activities referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the District as of June 30, 2010, and the changes in net assets thereof for the year then ended.

In our opinion, the remaining financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2011, on our consideration of the District's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The Management's Discussions and Analysis (MD&A) and Budgetary Comparison Schedules on pages 3 through 11, and pages 36 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



KETEL THORSTENSON, LLP
Certified Public Accountants

March 24, 2011

NEWELL SCHOOL DISTRICT NO. 9-2

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

This section of Newell School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net assets from governmental and business-type activities increased \$179,741 for the year ended June 30, 2010, primarily due to controlling payroll expense and ARRA distribution.
- The total cost of the District's programs increased by 7.2 percent during fiscal year 2010, which is primarily due to controlling payroll and related expenses as well as increase in operation expenses.
- The general fund reported a \$148,147 current year fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short-term and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the District is the Food Service Fund.
 - Fiduciary fund statements provide information about the financial relationships -- like scholarship plans for graduating students -- in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

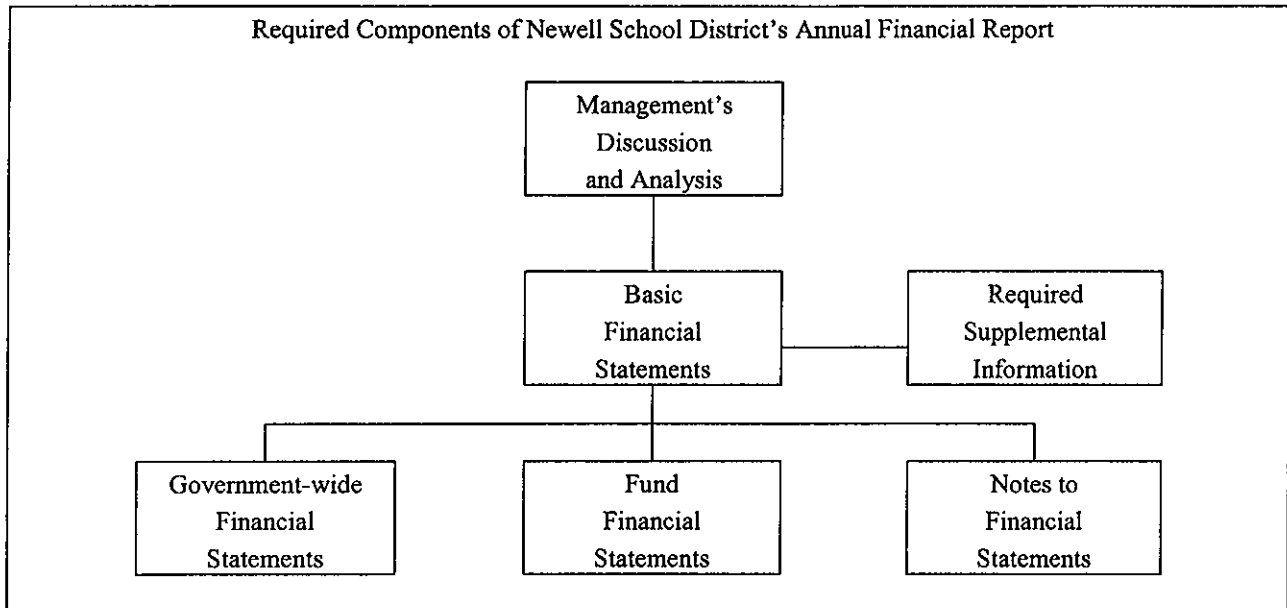
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

NEWELL SCHOOL DISTRICT NO. 9-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1



Government-Wide Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** – This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-Type Activities** -- The District charges a fee to students to help cover the costs of providing lunch services to all students. The Food Service Fund is the only business-type activity of the District.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund is the only proprietary fund maintained by the District.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

	Government-Wide Statements	Fund Statements		
	Entire District government (except fiduciary funds)	Governmental Funds The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs	Proprietary Funds Activities the District operates similar to private business - food service	Fiduciary Funds Instances in which the District is the trustee or agent for someone else's resources
Scope				
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows	Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

This section explains the differences between the current and prior year's assets, liabilities, and changes in net assets. The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, early retirement benefits payable, capital outlay certificates payable, and financing leases have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

Table A-1

COMPARATIVE SUMMARIZED STATEMENT OF NET ASSETS						
	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and Other Assets	\$ 1,529,917	\$ 1,362,904	\$ (2,799)	\$ 8,442	\$ 1,527,118	\$ 1,371,346
Capital Assets	5,765,580	5,949,839	6,252	17,739	5,771,832	5,967,578
Total Assets	\$ 7,295,497	\$ 7,312,743	\$ 3,453	\$ 26,181	\$ 7,298,950	\$ 7,338,924
Long-Term Debt	\$ 2,216,065	\$ 2,161,606	\$ -	\$ -	\$ 2,216,065	\$ 2,161,606
Other Liabilities	990,591	904,962	2,025	2,346	992,616	907,308
Total Liabilities	3,206,656	3,066,568	2,025	2,346	3,208,681	3,068,914
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	3,675,978	3,917,076	6,252	17,739	3,682,230	3,934,815
Restricted	274,599	355,321	(4,824)	6,096	269,775	361,417
Unrestricted	138,264	(26,222)	-	-	138,264	(26,222)
Total Net Assets	\$ 4,088,841	\$ 4,246,175	\$ 1,428	\$ 23,835	\$ 4,090,269	\$ 4,270,010
Beginning Net Assets	\$ 3,981,062	\$ 4,088,841	\$ 9,389	\$ 1,428	\$ 3,990,451	\$ 4,090,269
Change in Net Assets	107,779	157,334	(7,961)	22,407	99,818	179,741
Percentage of Change in Net Assets	2.71%	3.85%	-84.79%	1569.12%	2.50%	4.39%

Governmental Activities

The increase in assets for the governmental activities from 2009 to 2010 is due to the increase in property taxes, gross receipts tax, and operating grants.

Business-Type Activities

The increase in net assets for business-type activities from 2009 to 2010 is due to an increase in capital assets.

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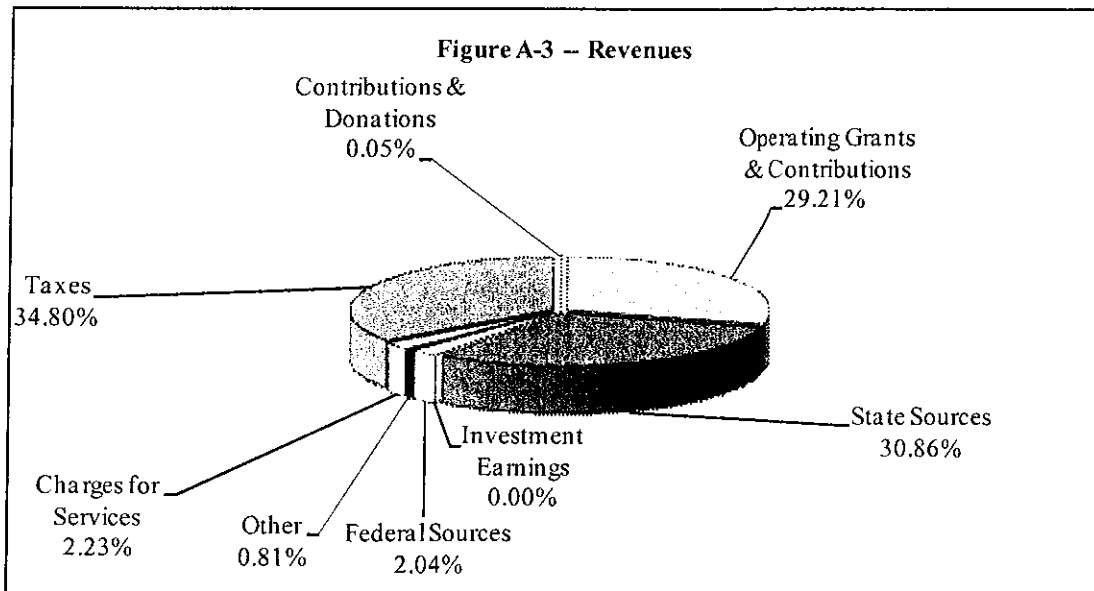
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

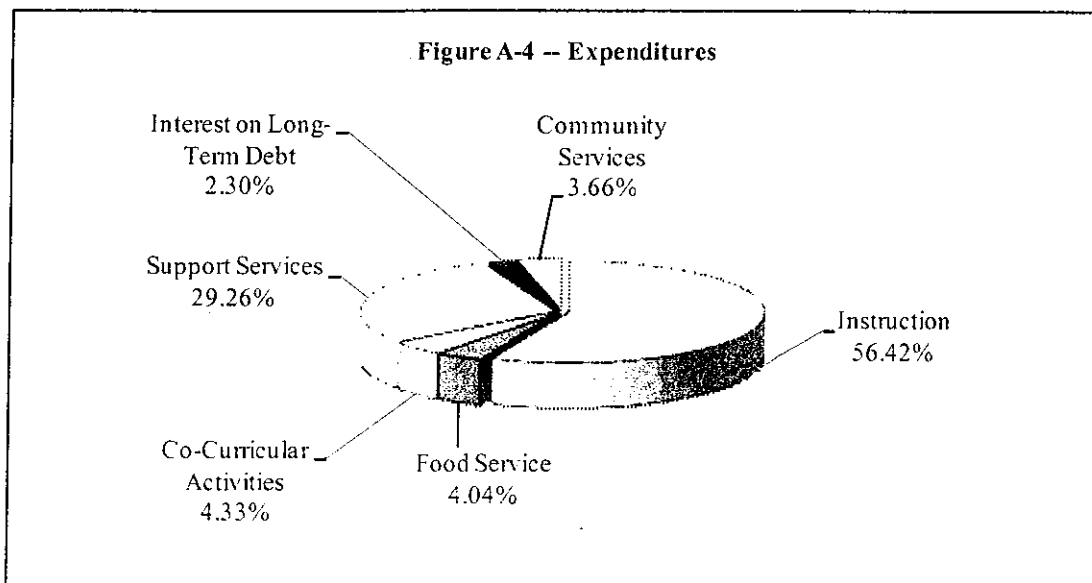
Changes in Net Assets

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences.

The District's revenues totaled \$4,093,859 for the year ended June 30, 2010. (See Table A-2.) Over one-third of the District's revenue comes from property and other taxes, with another third coming from state aid, and another third coming from operating grants and contributions. (See Figure A-3).



The total cost of all programs and services increased during fiscal year 2010. The District's expenses cover a range of services, with over one half encompassing instruction, and one third for support services. (See Figure A-4)



NEWELL SCHOOL DISTRICT NO. 9-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2 and the narrative that follows consider the operations of the District.

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 42,820	\$ 39,179	\$ 58,217	\$ 51,863	\$ 101,037	\$ 91,042
Operating Grants and Contributions	730,338	1,086,598	84,442	105,358	814,780	1,191,956
Capital Grants and Contributions	-	-	4,950	13,827	4,950	13,827
<i>General Revenues</i>						
Property Taxes	1,211,623	1,311,490	-	-	1,211,623	1,311,490
Gross Receipts Taxes	100,089	108,160	-	-	100,089	108,160
Revenue State Sources	1,339,082	1,259,123	-	-	1,339,082	1,259,123
Revenue Federal Sources	136,068	83,226	-	-	136,068	83,226
Unrestricted Investment Earnings	201	73	-	-	201	73
Other General Revenues	32,091	33,117	-	-	32,091	33,117
Contributions and Donations	500	1,845	-	-	500	1,845
Gain on Sale of Capital Assets	12,204	-	-	-	12,204	-
Total Revenues	3,605,016	3,922,811	147,609	171,048	3,752,625	4,093,859
Expenses						
Instruction	1,878,502	2,208,184	-	-	1,878,502	2,208,184
Support Services	1,216,665	1,145,151	-	-	1,216,665	1,145,151
Community Services	143,427	143,294	-	-	143,427	143,294
Co-Curricular Activities	165,730	169,444	-	-	165,730	169,444
Interest on Long-Term Debt	92,913	89,835	-	-	92,913	89,835
Food Service	-	-	155,570	158,210	155,570	158,210
Total Expenses	3,497,237	3,755,908	155,570	158,210	3,652,807	3,914,118
Excess Revenues Before Transfers	107,779	166,903	(7,961)	12,838	99,818	179,741
Transfers	-	(9,569)	-	9,569	-	-
Change in Net Assets	107,779	157,334	(7,961)	22,407	99,818	179,741
Ending Net Assets	\$ 4,088,841	\$ 4,246,175	\$ 1,428	\$ 23,835	\$ 4,090,269	\$ 4,270,010

Governmental Activities

The District had experienced increased operating grants and contributions during the 2010 year as compared to the 2009 year. The increase in expenditures was due to spending these additional grants.

NEWELL SCHOOL DISTRICT NO. 9-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Changes in Net Assets (Concluded)

Business-Type Activities

Revenues of the District's business-type activities increased by approximately 15.9 percent, and expenses increased by approximately 1.7 percent.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Pension Tax fund balance increased due to not having any teacher retirement payments for the year ended June 30, 2010. The General Fund's fund balance decreased by \$81,923, primarily due to an increase in operational and payroll expenses. The Special Education Fund's fund balance decreased by \$123,825, primarily due to increases in special program instruction and transportation expenses. The Capital Outlay's fund balance had increased by \$98,775 primarily due to the decrease in debt service expenses and capital outlay-related expenses such as architect expenses.

BUDGETARY HIGHLIGHTS

There were no significant budget changes for the General Fund.

Net variances between budget and actual were due to unexpected revenues received and expenses incurred.

CAPITAL ASSET ADMINISTRATION

By the end of 2010, the District had invested approximately \$5.9 million in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) Governmental capital asset additions and deletions are not consistently tracked by the District.

Table A-3

	Capital Assets (Net of Depreciation)			
	Governmental Activities		Business-Type Activities	
	2009	2010	2009	2010
Land	\$ 24,544	\$ 24,544	\$ -	\$ -
Buildings	4,555,073	4,555,073	-	-
Improvements Other Than Buildings	191,242	191,242	6,252	17,739
Equipment	994,721	1,178,980	-	-
Total Capital Assets (Net)	\$ 5,765,580	\$ 5,949,839	\$ 6,252	\$ 17,739

NEWELL SCHOOL DISTRICT NO. 9-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
JUNE 30, 2010**

LONG-TERM DEBT

At year-end, the District had \$2,161,606 in long-term obligations. This is a decrease of two percent as shown on Table A-4 below.

Table A-4

Outstanding Debt and Obligations				
	<u>2009</u>	<u>2010</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Compensated Absences	\$ 126,463	\$ 128,843	\$ 2,380	2%
Financing (Capital Acquisition) Leases	24,602	112,763	88,161	358%
Capital Outlay Certificates	2,065,000	1,920,000	(145,000)	-7%
Total Outstanding Debt and Obligations	\$ 2,216,065	\$ 2,161,606	\$ (54,459)	-2%

The District purchased computer tablets through a capital lease for \$159,233 during fiscal year 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown change. The District experienced an increase in total property valuation from \$152,866,632 to \$154,560,289. The increase in property valuation increases the District's ability to generate revenue from property taxes; however, the total amount, which can be levied, is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,804.60 per pupil. The District has experienced a increase of 14 ADM from 2009 to 2010. This increase in ADM will result in the District receiving more overall revenue from the State of South Dakota.

The District's enrollment increased from 323 to 337 (K-12) between fiscal year 2009 and 2010.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Newell School District's Business Office, 501 Dartmouth Avenue, Newell, SD 57760.

NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
<u>ASSETS</u>			
Cash and Investments	\$ 527,316	\$ -	\$ 527,316
Taxes Receivable	687,573	-	687,573
Receivables (Note 3)	147,968	5,246	153,214
Internal Balances (Note 9)	47	(47)	-
Inventories	-	3,243	3,243
Capital Assets (Note 5):			
Land	24,544	-	24,544
Buildings	4,555,073	-	4,555,073
Improvements Other Than Buildings	191,242	-	191,242
Equipment	1,178,980	-	1,178,980
Equipment, Net of Depreciation	-	17,739	17,739
TOTAL ASSETS	\$ 7,312,743	\$ 26,181	\$ 7,338,924
<u>LIABILITIES</u>			
Current Liabilities	\$ 308,754	\$ 2,346	\$ 311,100
Deferred Revenue	596,208	-	596,208
Long-Term Liabilities (Note 6):			
Due Within One Year	256,617	-	256,617
Due in More than One Year	1,904,989	-	1,904,989
TOTAL LIABILITIES	3,066,568	2,346	3,068,914
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	3,917,076	17,739	3,934,815
Restricted for:			
Capital Outlay	220,000	-	220,000
Pension Tax	135,321	-	135,321
Food Service	-	6,096	6,096
Unrestricted (Deficit)	(26,222)	-	(26,222)
TOTAL NET ASSETS	4,246,175	23,835	4,270,010
TOTAL LIABILITIES AND NET ASSETS	\$ 7,312,743	\$ 26,181	\$ 7,338,924

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
<i>Governmental Activities:</i>							
Instruction	\$ 2,208,184	\$ -	\$ 1,086,598	\$ -	\$ (1,121,586)	\$ -	\$ (1,121,586)
Support Services	1,145,151	-	-	-	(1,145,151)	-	(1,145,151)
Community Services	143,294	-	-	-	(143,294)	-	(143,294)
Co-Curricular Activities	169,444	39,179	-	-	(130,265)	-	(130,265)
Interest on Long-Term Debt *	89,835	-	-	-	(89,835)	-	(89,835)
Total Governmental Activities	3,755,908	39,179	1,086,598	-	(2,630,131)	-	(2,630,131)
<i>Business-Type Activities:</i>							
Food Service	158,210	51,863	105,358	13,827	-	12,838	12,838
Total Primary Government	\$ 3,914,118	\$ 91,042	\$ 1,191,956	\$ 13,827	(2,630,131)	12,838	(2,617,293)
<i>General Revenues</i>							
Taxes:							
Property Taxes					1,311,490	-	1,311,490
Gross Receipts Taxes					108,160	-	108,160
Revenue from State Sources:							
State Aid					1,249,451	-	1,249,451
Other					9,672	-	9,672
Revenue from Federal Sources					83,226	-	83,226
Unrestricted Investment Earnings					73	-	73
Other General Revenues					33,117	-	33,117
Contributions and Donations					1,845	-	1,845
Transfers					(9,569)	9,569	-
Total General Revenues and Transfers					2,787,465	9,569	2,797,034
Change in Net Assets					157,334	22,407	179,741
Net Assets -- Beginning					4,088,841	1,428	4,090,269
Net Assets -- Ending					\$ 4,246,175	\$ 23,835	\$ 4,270,010

* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 180,590	\$ 212,181	\$ -	\$ 134,545	\$ 527,316
Taxes Receivable -- Current	266,564	217,981	101,724	21,798	608,067
Taxes Receivable -- Delinquent	40,000	25,214	11,766	2,526	79,506
Due from Special Education Fund (Note 9)	3,031	-	-	-	3,031
Due from State Government (Note 3)	147,968	-	-	-	147,968
Advance to Other Funds (Note 9)	69,067	-	-	-	69,067
Total Assets	\$ 707,220	\$ 455,376	\$ 113,490	\$ 158,869	\$ 1,434,955
LIABILITIES					
Accounts Payable and Accrued Expenses	\$ 258,901	\$ -	\$ 49,853	\$ -	\$ 308,754
Due to General Fund (Note 9)	-	-	3,031	-	3,031
Advance from Other Funds (Note 9)	-	-	69,020	-	69,020
Deferred Revenue	300,172	239,705	111,862	23,975	675,714
Total Liabilities	559,073	239,705	233,766	23,975	1,056,519
FUND EQUITY					
<i>Fund Balance -- Reserved:</i>					
Advances to Other Funds	69,067	-	-	-	69,067
Music, Athletics, and Library (Note 7)	3,446	-	-	-	3,446
<i>Fund Balance -- Unreserved:</i>					
Undesignated (Deficit)	75,634	215,671	(120,276)	134,894	305,923
Total Fund Equity (Deficit)	148,147	215,671	(120,276)	134,894	378,436
Total Liabilities and Fund Equity	\$ 707,220	\$ 455,376	\$ 113,490	\$ 158,869	\$ 1,434,955

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances - Governmental Funds	\$ 378,436
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,949,839
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Long-term liabilities, including capital outlay certificates payable, accrued leave payable, and financing leases, are not due in the current period and therefore are not reported in the funds.	(2,161,606)
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Assets, such as taxes receivable, that are not available to pay for current period expenditures are deferred in the funds.	79,506
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Net Assets - Governmental Funds	\$ 4,246,175
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The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
Revenues:					
<i>1000 Revenue from Local Sources:</i>					
1110 Ad Valorem Taxes	\$ 555,430	\$ 448,006	\$ 209,069	\$ 44,801	\$ 1,257,306
1120 Prior Years' Ad Valorem Taxes	16,394	10,196	4,758	1,020	32,368
1140 Gross Receipts Taxes	108,160	-	-	-	108,160
1190 Penalties and Interest on Taxes	4,708	3,201	1,495	321	9,725
1500 Earnings on Investments and Deposits	73	-	-	-	73
<i>1700 Cocurricular Activities:</i>					
1710 Admissions	14,287	-	-	-	14,287
1790 Other Pupil Activity	24,892	-	-	-	24,892
<i>1900 Other Revenue from Local Sources:</i>					
1910 Rentals	425	-	-	-	425
1920 Contributions and Donations	1,845	-	-	-	1,845
1990 Other	13,848	150	1,928	-	15,926
2110 County Apportionment	16,766	-	-	-	16,766
<i>3000 Revenue from State Sources:</i>					
3110 Unrestricted Grants-in-Aid	1,249,451	-	-	-	1,249,451
3120 Restricted Grants-In-Aid	-	-	133,477	-	133,477
3900 Other State Revenue	9,672	-	-	-	9,672
<i>4000 Revenue from Federal Sources:</i>					
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	83,226	-	-	-	83,226
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	852,201	-	100,920	-	953,121
Total Revenues	2,951,378	461,553	451,647	46,142	3,910,720
Expenditures:					
<i>1100 Instruction - Regular Programs:</i>					
1110 Elementary	450,228	2,840	-	-	453,068
1120 Middle/Junior High	187,491	1,844	-	7,380	196,715
1130 High School	514,978	1,575	-	22,415	538,968
<i>1200 Instruction - Special Programs:</i>					
1220 Programs for Special Education	-	-	500,352	-	500,352
1270 Educationally Deprived	514,400	-	-	2,301	516,701
<i>2100 Support Services - Pupils:</i>					
2110 Attendance and Social Work	5,120	-	-	-	5,120
2120 Guidance	55,710	-	-	-	55,710
2130 Health	36,315	-	-	-	36,315
<i>2200 Support Services - Instructional Staff:</i>					
2220 Educational Media	112,790	-	-	-	112,790
<i>2300 Support Services - General:</i>					
2310 Board of Education	87,845	-	-	-	87,845
2320 Executive Administration	154,512	-	-	-	154,512
<i>2400 Support Services - School:</i>					
2410 Office of the Principal	78,998	-	-	-	78,998

NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
<i>2500 Support Services - Business:</i>					
2520 Fiscal Services	91,509	-	-	-	91,509
2530 Facilities Acquisition and Construction	-	9,867	-	-	9,867
2540 Operation and Maintenance of Plant	281,525	8,605	-	-	290,130
2550 Pupil Transportation	139,509	1,264	-	-	140,773
2570 Internal Services	-	6,462	-	-	6,462
<i>2700 Support Services - Special Education:</i>					
2710 Special Education Administration Costs	-	-	52,657	-	52,657
2730 Transportation Costs	-	-	16,642	-	16,642
2750 Other Special Education Costs	-	-	5,821	-	5,821
<i>3000 Community Services:</i>					
3500 Custody and Care of Children	143,197	-	-	97	143,294
5000 Debt Service	202,119	303,988	-	-	506,107
<i>6000 Cocurricular Activities:</i>					
6900 Combined Activities	162,374	6,619	-	451	169,444
7500 Capital Outlay	5,312	178,947	-	-	184,259
Total Expenditures	3,223,932	522,011	575,472	32,644	4,354,059
Excess of Revenues Over (Under) Expenditures	(272,554)	(60,458)	(123,825)	13,498	(443,339)
Other Financing Sources (Uses)					
5120 Borrowings on Line of Credit	200,200	-	-	-	200,200
5124 Capital Lease Proceeds	-	159,233	-	-	159,233
8110 Transfer Out (Note 9)	(9,569)	-	-	-	(9,569)
Total Other Financing Sources (Uses)	190,631	159,233	-	-	349,864
Net Change in Fund Balances	(81,923)	98,775	(123,825)	13,498	(93,475)
Fund Balances -- Beginning	230,070	116,896	3,549	121,396	471,911
Fund Balances -- Ending	\$ 148,147	\$ 215,671	\$ (120,276)	\$ 134,894	\$ 378,436

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (93,475)

Amounts reported for governmental activities in the Statement of Activities are different because:

In both the Government-wide and governmental fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the governmental fund financial statements differs from the accounting in the Government-wide statements in that the governmental fund financial statements require the amount to be available. This amount reflects the application of both the application period and availability criteria. 12,091

Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the governmental funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits. (2,380)

This amount represents capital asset purchases, which are reported as expenditures on the fund financial statements, but increase assets on the Government-wide statements. 184,259

Borrowings on the line of credit is an other financing source in the governmental funds, but an increase in current liabilities in the Government-wide statements. (200,200)

The issuance of a capital lease is an other financing source in the fund statements, but increases long-term liabilities in the Government-wide statements. (159,233)

Payment of principal on long-term debt is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Government-wide statements. 416,272

Change in Net Assets of Governmental Activities	\$ 157,334
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The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

PROPRIETARY FUNDS BALANCE SHEET

JUNE 30, 2010

	Food Service Fund
ASSETS	
Current Assets:	
Accounts Receivable	\$ 453
Inventory of Supplies	583
Due from State Government	4,793
Inventory of Stores Purchased for Resale	1,403
Inventory of Donated Food	1,257
Total Current Assets	8,489
Noncurrent Assets:	
Capital Assets (Note 5):	
Machinery and Equipment	55,636
Less Accumulated Depreciation	(37,897)
Total Noncurrent Assets	17,739
TOTAL ASSETS	\$ 26,228
LIABILITIES	
Current Liabilities:	
Accrued Leave Payable	\$ 2,346
Noncurrent Liability:	
Advance from General Fund (Note 9)	47
Total Liabilities	2,393
NET ASSETS	
Invested in Capital Assets	17,739
Unrestricted Net Assets	6,096
Total Net Assets	23,835
TOTAL LIABILITIES AND NET ASSETS	\$ 26,228

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Food Service Fund
Operating Revenue	
<i>Sales:</i>	
To Pupils	\$ 41,208
To Adults	5,895
A La Carte	463
Miscellaneous	4,297
Total Operating Revenue	51,863
Operating Expenses	
Salaries	51,231
Employee Benefits	18,290
Purchased Services	5,003
Supplies	4,510
Cost of Sales - Purchased Food	67,384
Cost of Sales - Donated Food	9,452
Depreciation - Local Funds	2,340
Total Operating Expenses	158,210
Operating Loss	(106,347)
Nonoperating Revenue	
<i>Federal Sources:</i>	
Cash Reimbursements	95,484
Donated Food	7,876
Fun Fruits and Vegetables	1,998
Federal Grant	13,827
Total Nonoperating Revenue	119,185
Income Before Transfers	12,838
Transfer In (Note 9)	9,569
Change in Net Assets	22,407
Net Assets -- Beginning	1,428
Net Assets -- Ending	\$ 23,835

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

	Food Service Fund
Cash Flows From Operating Activities	
Receipts from Customers	\$ 47,566
Other Cash Receipts	4,297
Payments to Suppliers	(76,383)
Payments to Employees	(68,216)
Net Cash Used in Operating Activities	(92,736)
Cash Flows From Noncapital Financing Activities	
Operating Subsidies	106,516
Internal Activity - Receipt from General Fund	47
Net Cash Provided by Noncapital Financing Activities	106,563
Cash Flows Used In Capital Financing Activities	
Purchase of Capital Assets	(13,827)
Net Change in Cash	-
Cash -- Beginning	-
Cash -- Ending	\$ -
Reconciliation of Operating Loss to Net Cash Flows Used in Operating Activities	
Operating Loss	\$ (106,347)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Cost of Sales - Donated Food	9,452
Depreciation Expense	2,340
<i>Change in Assets and Liabilities:</i>	
Accrued Leave Payable	321
Inventories	514
Prepaid Insurance	984
Net Cash Used in Operating Activities	\$ (92,736)
Noncash Investing, Capital and Financing Activities	
Value of Commodities Received	\$ 7,876

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010

	Private-Purpose Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash and Investments	\$ 10,462	\$ 36,902
<u>LIABILITIES</u>		
Amounts Held for Others	-	\$ 36,902
<u>NET ASSETS</u>		
Reserved for Scholarships	\$ 10,462	

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Private- Purpose Trust Fund</u>
ADDITIONS	
Interest Earnings	\$ 100
REDUCTIONS	
Scholarships	-
Change in Net Assets	100
Net Assets -- Beginning	10,362
Net Assets -- Ending	\$ 10,462

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of Newell School No. 9-2 (the District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

b. Basis of Presentation

Government-Wide Statements:

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The Statement of Net Assets reports all financial and capital resources, in a balance sheet form (assets equal liabilities plus net assets). Net assets are displayed in three components, as applicable: invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, propriety, and fiduciary. An emphasis is placed on major funds within the governmental and propriety categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district. The General fund is always a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major Fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund – A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund and is the only enterprise fund maintained by the District.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Agency Funds - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of agency funds. Agency funds are established to account for the monies earned by student organizations for various expenditures.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

All proprietary and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in Advances to asset accounts) are equally offset by a fund balance reserve account, which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund loans receivable (reported in Due From asset accounts) are considered available, spendable resources.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or propriety fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements:

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$1,000.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide business-type activities, with net capital assets reflected in the Statement of Net Assets. The depreciation method used for equipment is straight-line.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-Wide Statements (Continued):

The District does not have subsidiary records to support its governmental capital asset balance. In addition, capital asset additions and deletions have not been consistently or accurately recorded since 1994. No accumulated depreciation or depreciation expense is recorded in the government-wide statements for governmental activities.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in the proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

The estimated useful lives of equipment reported in the proprietary funds are 5 to 15 years.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of compensated absences payable, early retirement payable, capital outlay certificates, and financing (capital acquisition) leases.

In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

Compensated absences consist of sick leave earned. Sick leave is earned by certified and classified employees at the rate of 15 days per year and 1.25 days per month of employment, respectively. The number of days accumulated is limited to a maximum of 70 days for certified employees and 40 days for classified employees. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with three years of service or more will receive compensation at the rate of \$60 and \$20 per day of accumulated leave for certified and classified employees, respectively.

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria, cash benefits equal to four percent of the employee's salary per year of employment up to a maximum of 75 percent of their current salary may be paid to eligible employees upon termination. The benefit is paid in 18 equal monthly installments. No long-term liability exists at June 30, 2010 for early retirement.

Funding for compensated absences is expended in the general and special revenue funds. Early retirement is expended in the pension tax fund.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

g. Program Revenues

In the government-wide Statement of Activities, reported program revenues are derived directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as non-capital financing activities are not reported as components of operating revenues or expenses.

i. Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

Inventory in the enterprise fund consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when consumed.

There are no significant amounts of governmental supplies inventory maintained by the District.

j. Deposits and Investments

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

j. Deposits and Investments (Continued)

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2010, the District's cash and investments consisted of checking accounts and certificates of deposit.

Credit Risk:

State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices.

Interest Rate Risk:

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2010, none of the District's deposits were exposed to custodial credit risk.

State law allows income from deposits to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits to the fund making the investment.

k. Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met, primarily property tax revenue (Note 2).

l. Cash and Cash Equivalents

The District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. All reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

m. Application of Net Assets

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Concluded)

n. Equity Classifications

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups, such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Reserved” and “Unreserved” components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

(2) Property Taxes

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the District’s taxes and remits them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year’s appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year’s appropriations and therefore is not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the fiscal period or within the “availability period.”

(3) Due from State Government

Amounts due from state governments include grant reimbursements due from the State of South Dakota.

(4) Retirement Plan – South Dakota Retirement System

The following summary description of participation in the South Dakota Retirement System (the System) is provided for general information purposes. Participants should refer to South Dakota Codified Law (SDCL) 3-12 and employee handbooks for more complete information.

All full-time and permanent part-time employees working more than 20 hours per week during the school year, participate in the System, a cost sharing, multiple employer, public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The System provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(4) Retirement Plan – South Dakota Retirement System (Continued)

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the System. State statute also requires the employer to contribute an amount equal to the employee's contribution and to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the System for the fiscal years ended June 30, 2010, 2009, 2008, 2007, and 2006 were \$116,332, \$106,109, \$113,469, \$108,699, and \$102,827, respectively, equal to the required contributions each year.

(5) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows (see Note 1):

	Balance July 1, 2009	Additions	Transfers/ Retirements	Balance June 30, 2010
Governmental Activities				
Land	\$ 24,544	\$ -	\$ -	\$ 24,544
Buildings	4,555,073	-	-	4,555,073
Improvements Other Than Building	191,242	-	-	191,242
Equipment -- Local Funds	994,721	184,259	-	1,178,980
Governmental Activities Capital Assets	\$ 5,765,580	\$ 184,259	\$ -	\$ 5,949,839

Changes in capital assets used in business-type activities were as follows:

	Balance July 1, 2009	Additions	Transfers/ Retirements	Balance June 30, 2010
Business-Type Activities				
Machinery and Equipment	\$ 42,816	\$ 13,827	\$ (1,007)	\$ 55,636
Less Accumulated Depreciation	(36,564)	(2,340)	1,007	(37,897)
Business -Type Activities Capital Assets, Net	\$ 6,252	\$ 11,487	\$ -	\$ 17,739

(6) Long-Term Debt

The following is a summary of the changes in long-term liabilities:

	Capital Outlay Certificates	Financing (Capital Acquisition) Leases	Compensated Absences Payable	Total
Governmental Activities				
Balance -- Beginning	\$ 2,065,000	\$ 24,602	\$ 126,463	\$ 2,216,065
Earned	-	-	41,700	41,700
Used	-	-	(39,320)	(39,320)
New Debt Issues	-	159,233	-	159,233
Retired Amounts	(145,000)	(71,072)	-	(216,072)
Balance -- Ending	1,920,000	112,763	128,843	2,161,606
Due Within One Year	\$ 155,000	\$ 59,917	\$ 41,700	\$ 256,617

The District maintains a \$250,000 bank line of credit bearing interest at 5.0 percent for the purposes of operating cash flows. Borrowings and repayments on the line of credit totaled \$200,200 during the year. There were no outstanding borrowings as of June 30, 2010.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(6) Long-Term Debt (Continued)

The compensated absences will be paid from the general fund, special education fund and the pension fund. Long-term debt, other than compensated absences, is comprised of the following at June 30, 2010:

Capital Outlay Certificates:

2007 Capital Outlay Certificates require variable annual payments, including fixed interest at 3.9 to 4.5 percent, from June 2007 through June 2027; paid from the Capital Outlay Fund. \$ 1,045,000

2005 Refunding Capital Outlay Certificates require variable annual payments, including fixed interest at 2.0 to 4.4 percent, from January 2005 through January 2017; paid from the Capital Outlay Fund. 875,000

Financing (Capital Acquisition) Leases:

Lease which requires annual payments of \$13,482, including interest at 6.59 percent, through July 2010; paid from the Capital Outlay Fund. 12,798

Lease which requires annual payments of \$55,913, including interest at 5.44 percent, through July 2011; paid from the Capital Outlay Fund. 99,965
\$ 2,032,763

The purchase price at the commencement of the financing (capital acquisition) leases were:

Principal	\$ 219,590
Interest	15,367
Total	<u>\$ 234,957</u>

The annual requirements to amortize all debt outstanding as of June 30, 2010, excluding compensated absences, are as follows:

Year Ending June 30,	Capital Outlay Certificates		Financing (Capital Acquisition) Leases		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 155,000	\$ 80,126	\$ 59,917	\$ 6,123	\$ 214,917	\$ 86,249
2012	160,000	74,521	52,846	2,875	212,846	77,396
2013	165,000	68,453	-	-	165,000	68,453
2014	175,000	61,830	-	-	175,000	61,830
2015	180,000	54,680	-	-	180,000	54,680
2016-2020	565,000	170,648	-	-	565,000	170,648
2021-2025	355,000	85,183	-	-	355,000	85,183
2026-2028	165,000	11,250	-	-	165,000	11,250
	<u>\$ 1,920,000</u>	<u>\$ 606,691</u>	<u>\$ 112,763</u>	<u>\$ 8,998</u>	<u>\$ 2,032,763</u>	<u>\$ 615,689</u>

(7) Donor Restrictions

The reserved fund balance in the general fund at June 30, 2010 of \$3,446 is restricted for music, athletics, and library in accordance with donor restrictions.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2010, the District managed its risks as follows:

Property/Liability Insurance

The District purchases liability insurance for risk related to torts, theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workmen's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Health Insurance

The District joined the South Dakota School District Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. During the year ended June 30, 2010, the coverage provided a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 80 percent up to \$10,000. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settlement claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(9) Interfund Fund Balances and Transfers

Interfund receivable and payable balances at June 30, 2010, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
General Fund	\$ 72,098	\$ -
Special Education Fund	-	72,051
Food Service Fund	-	47
Total Interfund Receivable and Payable Balances	\$ 72,098	\$ 72,098

The General Fund loaned monies to the Special Education Fund and Food Service Fund for operations.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2010

(9) Interfund Fund Balances and Transfers (Continued)

During the fiscal year, the following amounts were transferred between funds to supplement for operating expenses:

Fund	Transfer In	Transfer Out
<i>Major Funds:</i>		
General Fund	\$ -	\$ 9,569
Food Service Fund	9,569	-
Total Transfers	\$ 9,569	\$ 9,569

(10) Contingency

The District participates in a number of federal programs that are subject to compliance audits under OMB Circular A-133. From the 2004/2005 and 2006, and 2007 compliance audits, there are questioned costs to the U.S. Department of Education of \$8,722 and \$6,484, respectively. From the 2010 compliance audit, there are questioned costs to the U.S. Department of Education of \$6,140. The ultimate resolution of any liability for these questioned costs will be made by the federal agency.

REQUIRED SUPPLEMENTARY INFORMATION

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		(Budgetary Basis)	
	Original	Final	Actual	Variance
Revenues:				
1000 Revenue from Local Sources:				
1110 Ad Valorem Taxes	\$ 574,945	\$ 574,945	\$ 555,430	\$(19,515)
1120 Prior Years' Ad Valorem Taxes	6,000	6,000	16,394	10,394
1140 Gross Receipts Taxes	95,000	95,000	108,160	13,160
1190 Penalties and Interest on Taxes	2,000	2,000	4,708	2,708
1500 Earnings on Investments and Deposits	160	160	73	(87)
1700 Cocurricular Activities:				
1710 Admissions	28,000	28,000	14,287	(13,713)
1720 Concessions	23,000	23,000	-	(23,000)
1790 Other Pupil Activity	800	800	24,892	24,092
1900 Other Revenue from Local Sources:				
1910 Rentals	200	200	425	225
1920 Contributions and Donations	-	-	1,845	1,845
1990 Other	12,600	12,600	13,848	1,248
2110 County Apportionment	12,000	12,000	16,766	4,766
3000 Revenue from State Sources:				
3110 Unrestricted Grants-in-Aid	1,327,993	1,327,993	1,249,451	(78,542)
3900 Other State Revenue	-	-	9,672	9,672
4000 Revenue from Federal Sources:				
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	96,000	96,000	83,226	(12,774)
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	750,571	750,571	852,201	101,630
Total Revenues	2,929,269	2,929,269	2,951,378	22,109

Expenditures:

<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	475,199	475,199	450,228	24,971
1120 Middle/Junior High	189,764	189,764	187,491	2,273
1130 High School	536,910	536,910	514,978	21,932
<i>1200 Instruction - Special Programs:</i>				
1270 Educationally Deprived	547,561	547,561	514,400	33,161
1290 Other Special Programs	9,666	9,666	-	9,666
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	3,200	3,200	5,120	(1,920)
2120 Guidance	53,382	53,382	55,710	(2,328)
2130 Health	36,208	36,208	36,315	(107)
<i>2200 Support Services - Instructional Staff:</i>				
2220 Educational Media	111,164	111,164	112,790	(1,626)

NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
<i>2300 Support Services - General:</i>				
2310 Board of Education	107,610	107,610	87,845	19,765
2320 Executive Administration	136,111	136,111	154,512	(18,401)
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	67,155	67,155	78,998	(11,843)
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	91,824	91,824	91,509	315
2540 Operation and Maintenance of Plant	299,353	299,353	281,525	17,828
2550 Pupil Transportation	174,781	174,781	139,509	35,272
<i>3000 Community Services:</i>				
3500 Custody and Care of Children	153,994	153,994	148,509	5,485
5000 Debt Service	-	-	202,119	(202,119)
<i>6000 Cocurricular Activities:</i>				
6900 Combined Activities	172,971	172,971	162,374	10,597
Total Expenditures	3,166,853	3,166,853	3,223,932	(57,079)
Excess of Revenues Under Expenditures	(237,584)	(237,584)	(272,554)	(34,970)
Other Financing Sources (Uses):				
5120 Borrowings on Line of Credit	-	-	200,200	200,200
8110 Transfer Out	-	-	(9,569)	(9,569)
Total Other Financing Sources	-	-	190,631	190,631
Change in Fund Balance	(237,584)	(237,584)	(81,923)	(44,539)
Fund Balance -- Beginning	230,070	230,070	230,070	-
Fund Balance -- Ending	\$ (7,514)	\$ (7,514)	\$ 148,147	\$ (44,539)

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		(Budgetary Basis)	
	Original	Final	Actual	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 440,000	\$ 440,000	\$ 448,006	\$ 8,006
1120 Prior Years' Ad Valorem Taxes	7,000	7,000	10,196	3,196
1190 Penalties and Interest on Taxes	2,500	2,500	3,201	701
<i>1900 Other Revenue from Local Sources:</i>				
1990 Other	-	-	150	150
Total Revenues	449,500	449,500	461,553	12,053
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	8,500	8,500	2,840	5,660
1120 Middle/Junior High	8,500	8,500	1,844	6,656
1130 High School	14,500	14,500	160,808	(146,308)
<i>2300 Support Services - General:</i>				
2320 Executive Administration	1,000	1,000	-	1,000
<i>2500 Support Services - Business:</i>				
2530 Facilities Acquisition and Construction	89,000	89,000	9,867	79,133
2540 Operation and Maintenance of Plant	9,500	9,500	8,605	895
2550 Pupil Transportation	20,000	20,000	20,978	(978)
2570 Internal Services	6,580	6,580	6,462	118
5000 Debt Service	317,450	322,450	303,988	18,462
<i>6000 Cocurricular Activities:</i>				
6900 Combined Activities	13,000	13,000	6,619	6,381
Total Expenditures	488,030	493,030	522,011	(28,981)
Excess of Revenues Under Expenditures	(38,530)	(43,530)	(60,458)	(16,928)
Other Financing Sources				
5124 Capital Lease Proceeds	-	-	159,233	159,233
Change in Fund Balance	(38,530)	(43,530)	98,775	142,305
Fund Balance -- Beginning	116,896	116,896	116,896	-
Fund Balance -- Ending	\$ 78,366	\$ 73,366	\$ 215,671	\$ 142,305

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		(Budgetary Basis)	
	Original	Final	Actual	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 193,000	\$ 193,000	\$ 209,069	\$ 16,069
1120 Prior Years' Ad Valorem Taxes	2,500	2,500	4,758	2,258
1190 Penalties and Interest on Taxes	1,000	1,000	1,495	495
<i>1900 Other Revenue from Local Sources:</i>				
1990 Other	-	-	1,928	1,928
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	91,160	91,160	133,477	42,317
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	99,866	99,866	-	(99,866)
4150-4199 Restricted Grants-in-Aid Received				
from Federal Government Through State	158,885	158,885	100,920	(57,965)
Total Revenues	546,411	546,411	451,647	(94,764)
Expenditures:				
<i>1200 Instruction - Special Services:</i>				
1220 Programs for Special Education	526,211	526,211	500,352	25,859
<i>2700 Support Services - Special Education:</i>				
2710 Special Education Administration Costs	-	-	52,657	(52,657)
2730 Transportation Costs	-	-	16,642	(16,642)
2750 Other Special Education Costs	20,200	20,200	5,821	14,379
Total Expenditures	546,411	546,411	575,472	(29,061)
Change in Fund Balance	-	-	(123,825)	(123,825)
Fund Balance -- Beginning	3,549	3,549	3,549	-
Fund Balance (Deficit) -- Ending	\$ 3,549	\$ 3,549	\$ (120,276)	\$ (123,825)

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - PENSION TAX FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		(Budgetary Basis)	
	Original	Final	Actual	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 41,905	\$ 41,905	\$ 44,801	\$ 2,896
1120 Prior Years' Ad Valorem Taxes	-	-	1,020	1,020
1190 Penalties and Interest on Taxes	-	-	321	321
Total Revenues	41,905	41,905	46,142	4,237
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1120 Middle/Junior High	8,679	8,679	7,380	1,299
1130 High School	23,955	23,955	22,415	1,540
<i>1200 Instruction - Special Programs:</i>				
1270 Educationally Deprived	-	-	2,301	(2,301)
<i>3000 Community Services:</i>				
3500 Custody and Care of Children	-	-	97	(97)
6900 Combined Activities	-	-	451	(451)
70000 Contingency	9,271	9,271	-	9,271
Total Expenditures	41,905	41,905	32,644	9,261
Change in Fund Balance	-	-	13,498	13,498
Fund Balance -- Beginning	121,396	121,396	121,396	-
Fund Balance -- Ending	\$ 121,396	\$ 121,396	\$ 134,894	\$ 13,498

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010**

(1) Basis of Presentation

The Budgetary Comparison Schedule has been prepared on the budgetary basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function, while the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances presents capital outlay expenditures as a separate function.

(2) Budgetary Legal Requirements

South Dakota Codified Law prescribes the budgetary procedures to be followed by the District as follows:

1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level, and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and major special revenue funds of the District only.

SINGLE AUDIT SECTION

NEWELL SCHOOL DISTRICT NO. 9-2

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010**

The recommendations reported in the prior audit of Newell School District No. 9-2 as Finding No. 2007-1, 2007-2, 2007-3, 2007-6, 2007-7, and 2007-8 will be restated on the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, Part B and Part C. The District is working on implementing corrective actions on certain findings or is accepting the risk associated with other findings.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN
JUNE 30, 2010**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an adverse opinion on the governmental activities of Newell School District No. 9-2 (the District). The independent auditor's report expresses an unqualified opinion on the business-type activities, major funds, and aggregate remaining fund information of the District.
2. Significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Several deficiencies are reported as material weaknesses.
3. One instance of noncompliance material to the financial statements of the District was disclosed during the audit.
4. Significant deficiencies disclosed during the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. All of these deficiencies are reported as material weaknesses.
5. The auditors' report on compliance for the major federal award programs for the District expresses a qualified opinion.
6. The audit findings related to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs tested as major programs (or clusters) were:
 - a. Title I Programs Cluster (CFDA #84.010 and #84.389)
 - b. Title IV, Part B - 21st Century Grant, CFDA #84.287
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The District was not determined to be a low-risk auditee.

B. FINDINGS -- FINANCIAL STATEMENT AUDIT

Significant Deficiencies -- Material Weaknesses in Internal Control

2007-1 FINDING: Segregation of Duties

Condition: An adequate system of accounting duties and functions has not been achieved to assure adequate internal control over safeguarding of assets and the reliability of financial records and reporting. Segregation of duties also encompasses a review function of all phases of the District's financial operations. The following are specific areas of inadequate segregation of duties:

- a. The assistant business manager or business manager receives cash and checks, posts the cash/check and electronic payments, prepares the deposit slip, takes the deposit to the bank, and receives the bank statement unopened.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE
ACTION PLAN (CONTINUED)
JUNE 30, 2010**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)

2007-1 FINDING: Segregation of Duties (Continued)

- b. The activity tickets are not pre-numbered (with the exception of basketball games) and pre-numbered tickets are not used at all sports events. Not all sports events have two ticket takers. This makes it impossible for someone to reconcile the revenue from the activity revenue, giving personnel/volunteers the opportunity to misappropriate cash.
- c. The assistant business manager generates the vendor checks, prepares the disbursement listing for the School Board meetings, has access to the signature disk and blank check stock, and receives the bank statements unopened. The disbursement listing does not include check numbers for Board members to ensure that it is a complete listing. In addition, the assistant business manager is an authorized check signer for the fiduciary checking accounts.
- d. The assistant business manager enters all payroll information, generates the payroll, initiates the online payment, receives the bank statement, and no one reviews the direct deposit listing. Salaries expenditures represent over half of the District's expenditures.
- e. Both the assistant business manager and the business manager post journal entries and none are reviewed.
- f. The School Board receives a disbursement listing without check numbers from the assistant business manager. The financial statement presented to the School Board is a summary created by the business manager. The monthly financial information provided to the School Board includes a bank balance, rather than a general ledger balance.
- g. For a portion of the year, the cash receipts were not being tied to the deposit report from the food service module by the business manager.
- h. For a portion of the year, the District credit card was maintained in an unlocked drawer in the business office.

Criteria: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. Compliance with all grant terms and related cost principles must be part of any effective internal control system.

Questioned Costs: None

Effect: The effectiveness of the internal control system relies on enforcement by management. Small problems can lead to more severe problems, such as questioned costs or even make the District more susceptible to fraud.

Recommendation: Under these circumstances, the most effective controls lie in (1) management and the Board of Education's knowledge of the District's financial operations and (2) striving to obtain as much segregation of duties as possible so that no one person has complete control of any type of financial transaction. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Supervision and review functions must be done continually during all phases of the accounting cycle.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE
ACTION PLAN (CONTINUED)
JUNE 30, 2010**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)

2007-1 FINDING: Segregation of Duties (Concluded)

Specifically:

- a. The assistant business manager or business manager should not directly receive any cash/check payments, if that same person posts them into the general ledger. The business manager should review the weekly deposits by comparing them to receipt books from other locations. The bank statement should go to a School Board member or the Superintendent each month unopened.
- b. Pre-numbered tickets should be used for activity tickets and all sports events, and these tickets should be reconciled to the cash deposited, similar to other co-curricular events of the District.
- c. The bank statement should go to a School Board member or the Superintendent each month unopened. The School Board member or Superintendent should review the cancelled checks and overall account activity for propriety, including reasonable amounts, recognizable vendors, and proper authorized signatures. The business manager should generate a monthly check listing (including check numbers) directly from the general ledger software for the School Board meeting. The School Board should review this listing for completeness (first check number follows the check number from the previous month and there are no gaps in the check number sequence). The two Board members that review invoices before the Board meeting should also review the checks. These reviewed checks should then go to the high school secretary for mailing. The assistant business manager should not be an authorized check signer of the fiduciary checking account.
- d. The superintendent or a School Board member should review the direct deposit listing before it is submitted to the bank. As mentioned in "c" above, someone other than the assistant business manager should receive the bank statement unopened to review the payroll transfer amount. A School Board member has been reviewing the direct deposit listing after submission, as well as verifying the payroll transfer amount since March 2010.
- e. All journal entries posted by the assistant business manager should be reviewed by the business manager and approval documentation should be documented.
- f. As noted in "c" above, the School board should receive a check listing from the general ledger software each month. The monthly report should also give the general ledger cash balance, not the bank balance.
- g. The business manager should be periodically comparing the deposit report from the food service module to the actual cash receipts received. The business manager has performed such tasks since March 2010.
- h. The District credit card should be maintained in a locked location that only authorized personnel have access to. The District has maintained the card properly in a locked location since March 2010.

Response/Corrective Action Plan: The District strives to attain as much segregation of duties as possible with the staff available. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

- A third party receives the bank statements electronically for reconciliation purposes.
- Numbered tickets and balance form worksheet will be placed in each cashbox for other sporting events.
- Board members reviewing invoices also check vouchers against check stubs, before submitting for payment.
- The Business Manager will look over and sign each months cash receipt listing used to balance cash receipts.
- A monthly check register will be printed and reviewed for validity and check number sequencing by the high school secretary – her signature will be on the document.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE
ACTION PLAN (CONTINUED)
JUNE 30, 2010**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)

2007-2 FINDING: Capital Asset Records

Condition: Capital asset records were not properly maintained to support the amounts reported for governmental activities capital assets, resulting in lack of control over public assets and inaccurate financial statements.

Criteria: The District has no subsidiary records to support the amount reported for improvements other than buildings. The subsidiary records maintained for capital assets have not been updated for additions or disposals since 1994. Finally, the general ledger balance for capital assets does not agree to the subsidiary records.

Questioned Costs: None

Effect: These conditions result in unreliable data being reported for capital assets for governmental activities and lack of safeguards for these assets. In addition, the District's audit report for governmental activities expresses an adverse opinion.

Recommendation: The District needs to establish and maintain adequate capital assets accounting records. The general ledger capital asset balance should be reconciled to the accounting records established.

Response/Corrective Action Plan: Business Office is currently verifying existing records and updating newer purchases with a five year goal to accommodate/include whole campus. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

2007-7 FINDING: Preparation of Financial Statements

Condition: As in prior years, we were requested to draft the audited financial statements, related footnote disclosures, and Schedule of Expenditures of Federal Awards (SEFA) as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size.

Criteria and Effect: It is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements or SEFA that would have not been prevented or detected by the District's Management.

Questioned Costs: None

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's financial statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE
ACTION PLAN (CONTINUED)
JUNE 30, 2010**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies -- Material Weaknesses in Internal Control (Concluded)

2007-8 FINDING: Internal Control over Significant Accounts

Condition: During the course of our engagement, we proposed material audit adjustments that resulted in a \$55,945 decrease in reported revenues exceeding expenditures. The adjustments included adjusting fund balance, grant revenue and receivable, accrued sick leave, workman's compensation liability, prepaid expense, contracts payable, depreciation, deferred revenue, long-term debt, and food service capital asset additions. Additionally, several reclassifications were posted, including fuel from supplies and a capital outlay expenditure from debt service.

Criteria and Effect: These adjustments were not recorded through the District's existing internal controls, and therefore, resulted in a material misstatement of the District's financial statements. As in past audits, these adjustments were made by us as part of our audit process.

Questioned Costs: None

Recommendation: We recommend that management record these adjustments, which are necessary to comply with accounting principles generally accepted in the United States, and record the adjustments prior to the annual audit in future years.

Response/Corrective Action Plan: The District will work with DOE on having all adjustments made prior to each annual audit. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

Significant Deficiencies -- Not Considered Material Weaknesses in Internal Control

2010-1 FINDING: Noncompliance Disbursement Testing

Condition:

- a. During disbursement testing of non-federal dollars we noted an expense was classified improperly between supplies and transportation.
- b. During payroll testing of non-federal dollars we noted one instance where the gross pay did not agree with the approved wages. For a separate payroll item, we noted that an unsigned wage addendum was used to calculate the gross pay.

Criteria and Effect:

- a. Classification of disbursements is important for consistency for budgeting and financial statement reporting. Inconsistent classifications can make budgeting more difficult and lead to financial statements which are not comparable.
- b. Payroll should be prepared from signed wage agreements, which will ensure employees are paid the proper wages.

Questioned Costs: None

Recommendation: Care should be taken when coding expenditures to the general ledger and signed wage agreements should be used when preparing payroll.

Response/Corrective Action Plan: Multiple signatures will be needed for wage agreements and more care will be taken when coding expenditures. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE
ACTION PLAN (CONTINUED)
JUNE 30, 2010**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONCLUDED)

Significant Deficiencies -- Not Considered Material Weaknesses in Internal Control (Continued)

2010-2 FINDING: Deficit Budgeted Fund Balance

Condition: The budget for the General Fund exceeds the allowable fund balance as allowed by South Dakota Codified Law 13-11-3.2.

Criteria and Effect: The District is in violation of the law.

Questioned Costs: None

Recommendation: Budgets for future years cannot project to reduce a fund balance to a deficit.

Response/Corrective Action Plan: More care will be taken when coding expenditures and creating accurate budgets. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

The findings 2007-1, 2007-7 and 2007-8 listed in Part B also relate to the major federal programs the District received, which are listed in this report and in the Schedule of Expenditures of Federal Awards. The findings relate to the reporting compliance requirement.

Significant Deficiencies-- Material Weaknesses in Internal Control

2007-3 FINDING: Title I Disbursement Testing

Condition: During our testing of compliance disbursements, we noted within Title I (CFDA #84.010 and #84.389), two expenditures that were used for high school students' expenses and the District's Title I program only covers the elementary and middle schools. Additionally, the District did not record funds returned for a school trip in the proper Title I expenditure account.

Criteria: Internal controls should be in place to provide reasonable assurance that all disbursement transactions are reviewed and approved before payments are made and reports are generated. Compliance with all grant terms and related cost principles must be part of any effective internal control system. These findings relate to the Activities Allowed/Unallowed and Allowable Costs/Cost Principles.

NEWELL SCHOOL DISTRICT NO. 9-2

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE
ACTION PLAN (CONTINUED)
JUNE 30, 2010

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)

Significant Deficiencies-- Material Weaknesses in Internal Control (Continued)

2007-3 FINDING: Title I Disbursement Testing (Continued)

Effect: Problems with proper disbursement controls can lead to severe problems, such as questioned costs.

Questioned Costs: None

Recommendation: Care should be taken when coding expenditures to the general ledger accounts and reimbursements should be properly recorded against Federal grant expenditures.

Response/Corrective Action Plan: More care will be taken when coding expenditures to the general ledger accounts and reimbursement should be properly recorded against Federal grant expenditures. Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

2007-6 FINDING: Payroll Disbursement Testing

Condition: During testing of compliance payroll disbursements, we noted the following within the Title I and 21st Century programs:

- a. Within 21st Century (CFDA #84.287):
 - a. One employee was overpaid for time actually worked.
 - b. One employee did not complete semi-annual certifications for 100 percent of her time being spent within the 21st Century program.
- b. Within Title I (CFDA #84.010 and #84.389):
 - a. 12 of 33 individuals tested did not have supporting documentation to meet the highly-qualified standards required for paraprofessionals.
 - b. We noted high school teachers, one Special Education teacher, and various food service employees had been charged against Title I as part of the summer school program. These employees are not allowable costs under Title I.
 - c. 3 of 33 individuals tested did not have an hourly rate that had been approved via a summer school agreement or school board minutes.
 - d. 2 of 33 individuals tested were paid at \$12 per hour, when they should have been paid at \$15 per hour per review of their summer school agreements.

Criteria: OMB Circular A-87 requires documentation to support allocations of payroll when employees work on single or multiple federal awards. Compliance with all grant terms and related cost principles must be part of any effective internal control system. If significant payroll allocations are not properly documented, it could lead to severe problems, such as questioned costs under OMB Circular A-87. When an employee is allocated entirely to a federal program, a semi-annual certification must be completed.

With regard to paraprofessionals meeting highly qualified standards, OMB Circular A-133 requires any instructors who are charged against a Title I program to have the following requirements:

- o A high school diploma or its recognized equivalent *and* one of the following requirements:
 - Have completed at least two years of study at an institution of higher education
 - Have obtained an associate's or higher degree
 - Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE
ACTION PLAN (CONCLUDED)
JUNE 30, 2010**

**C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONCLUDED)**

Significant Deficiencies-- Material Weaknesses in Internal Control (Concluded)

2007-6 FINDING: Payroll Disbursement Testing (Continued)

With regard to high school students, instructors, and Special Education teachers having been charged against the Title I program for summer school, the District should spend funds in accordance with the State-approved consolidated application for Title I.

With regard to summer school substitute pay rates not having been approved, State Statute 6-1-10 requires a complete listing of all the salaries of all officers and employees and thereafter being published once any salary paid has been added or whose salary has been increased, within 30 days thereafter.

With regard to teachers being paid at the incorrect hourly rate, internal controls should be in place to verify that teachers are paid at their proper current rate each pay period.

These findings relate to the Activities Allowed/Unallowed and Allowable Costs/Cost Principles compliance requirements.

Effect: Problems with proper payroll disbursement controls can lead to severe problem, such as questioned costs.

Questioned Costs:

- a. Within 21st Century: None
- b. Within Title I: We identified questioned costs of \$6,140 from a sample of \$27,268 for summer school and substitute payroll expenditures (CFDA #84.010 and #84.389). The total population of summer school and substitute Title I expenditures was \$47,878.

Recommendation: The District should ensure that employees are being paid from grant funds only for the time worked within a grant. The District should also obtain proper documentation for all semi-annual certifications and highly-qualified paraprofessional requirements. Additionally, the District should ensure that all employee pay rates are published, as well as the employees being paid at their proper hourly rates.

Response/Corrective Action Plan: Before offering Summer School workers a contract, care will be taken to be sure that they have met the highly qualified standards. Due to audit findings payroll personnel will be instructed not to pay Food Service personnel out of Title Funds. Summer School wages (teachers, paras, subs) will be published at some time during the school calendar year. More care will be given to time sheets/hourly wages and completion of semi annually certifications. The Business Office will request documentation for Payroll allocation amounts from Title Consolidated Agreement and 21st Century grant regulations. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Non-Cash Assistance (Commodities):		
National School Lunch Program (Note 7)	10.555	\$ 9,452
Cash Assistance:		
School Breakfast Program (Notes 2 and 7)	10.553	15,251
National School Lunch Program (Notes 2 and 7)	10.555	74,659
ARRA - School Lunch Equipment Grant	10.579	13,827
Total U.S. Department of Agriculture		113,189
<i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
Taylor Grazing (Note 1)	15.206	11,535
National Mineral Leasing (Note 1)	15.207	71,690
Total U.S. Department of the Interior		83,225
<i>U.S. Department of Education:</i>		
Pass-Through the S.D. Department of Education:		
Title I, Part A Basic Programs -- Local Educational Agencies (Notes 3 and 6)	84.010	259,229
ARRA Title I, Part A Basic Programs (Notes 3 and 6)	84.389	212,171
Special Education -- State Grants (IDEA Part B) (Notes 1 and 4)	84.027	99,233
Special Education -- Preschool Grants (IDEA Preschool) (Notes 1 and 4)	84.173	1,059
Title IV, Part A -- Safe and Drug-Free Schools & Communities -- State Grants	84.186	5,286
Title IV, Part B -- 21st Century Grant (Note 3)	84.287	150,156
Title II, Part D -- Education Technology State Grant	84.318	4,517
Title II, Part A -- Improving Teacher Quality State Grant	84.367	22,524
ARRA -- State Fiscal Stabilization Fund -- Education State Grant, Recovery Act	84.394	96,025
Total U.S. Department of Education		850,200
Total		\$ 1,046,614

Note 1: Federal reimbursements are not based upon specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 3: This program was tested as a major program.

Note 4: These programs make up the Special Education Cluster.

Note 5: The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

Note 6: These programs make up the Title I Cluster.

Note 7: These programs make up the Child Nutrition Cluster.

OTHER REPORTS



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Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board
Newell School District No. 9-2
Newell, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2011, in which an adverse opinion was expressed on the governmental activities and an unqualified opinion on the business-type activities, each major fund, and the aggregate remaining fund information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Part B, Findings 2007-1, 2007-2, 2007-7, and 2007-8 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Part B, Findings 2010-1 and 2010-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as 2010-2.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

March 24, 2011



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Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Newell School District No. 9-2
Newell, South Dakota

Compliance

We have audited the compliance of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on each of District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in Part C, Finding 2007-6, in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, the District did not comply with requirements regarding Activities Allowed/Unallowed and Allowable Costs/Cost Principles compliance requirements that are applicable to its major federal program, the Title I Cluster (CFDA #84.010 and #84.389). Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as 2007-3.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as 2007-1, 2007-3, 2007-6, 2007-7 and 2007-8 to be material weaknesses.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

March 24, 2011